

OPEN MEETING ITEM



0000088994

ORIGINAL

ERS
hairman
DELL
LER
YES
E



ARIZONA CORPORATION COMMISSION

RECEIVED

2008 SEP 29 P 3:37

DATE: SEPTEMBER 29, 2008

DOCKET NOS: W-02351A-07-0319 and W-02351A-07-0686

AZ CORP COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Order on:

PICACHO PEAK WATER COMPANY, INC.
(RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 6, 2008

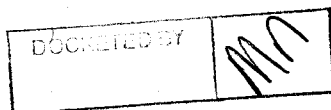
The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

OCTOBER 15, 2008 and OCTOBER 16, 2008

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

SEP 29 2008



BRIAN C. McNEIL
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MIKE GLEASON, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 KRISTIN K. MAYES
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF
9 PICACHO PEAK WATER COMPANY, INC., FOR
10 AUTHORITY TO INCUR DEBT TO FINANCE
11 WATER SYSTEM IMPROVEMENTS.

DOCKET NO. W-02351A-07-0319

12 IN THE MATTER OF THE APPLICATION OF
13 PICACHO PEAK WATER COMPANY, INC., FOR
14 A RATE INCREASE.

DOCKET NO. W-02351A-07-0686

DECISION NO. _____

ORDER

15 Open Meeting
16 October 15 and 16, 2008
17 Phoenix, Arizona

18 **BY THE COMMISSION:**

19 On May 22, 2007, Picacho Peak Water Company, Inc., ("Picacho") filed with the Arizona
20 Corporation Commission ("Commission") a financing application for authority to incur debt to
21 finance water system improvements in Docket No. W-02351A-07-0319.

22 On December 13, 2007, Picacho filed with the Commission an amended finance application
23 (together with the May 22, 2007, Financing Application, the "Financing Application").

24 On December 13, 2007, Picacho filed with the Commission an application for a permanent
25 water rate increase in Docket No. W-02351A-07-0686 ("Rate Application").

26 On December 13, 2007, Picacho mailed notice of the Rate Application to its customers.

27 On January 14, 2008, pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, the
28 Commission's Utilities Division ("Staff") issued a Letter of Deficiency and first set of data requests
stating that Picacho's Rate Application was deficient.

On January 29, 2008, Picacho responded to Staff's data requests.

1 On January 29, 2008, Picacho filed correspondence requesting the consolidation of Docket
2 No. W-02351A-07-0319 and Docket No. W-02351A-07-0686.

3 By Procedural Order dated February 11, 2008, Docket Nos. W-02351A-07-0319 and W-
4 02351A-07-0686 were consolidated.

5 On March 20, 2008, pursuant to A.A.C. R14-2-103, Staff issued a Letter of Sufficiency
6 finding Picacho's Financing Application and Rate Application sufficient as of February 28, 2008, and
7 classifying Picacho as a Class D utility.

8 On May 13, 2008, Staff filed an Extension Request for time to file its Staff Report and on
9 May 19, 2008, a Procedural Order granting Staff's request was issued.

10 On May 21, 2008, Staff filed its Staff Report on the Rate and Financing Applications
11 recommending, among other things, that Staff's proposed rates and charges be approved and that the
12 Financing Application be approved.

13 On May 30, 2008, Picacho filed an Extension Request for additional time to file its response
14 to the Staff Report, and on June 5, 2008, a Procedural Order granting Picacho's request was issued.

15 On May 30, 2008, Picacho filed verification that it mailed Notice of the Financing
16 Application to its customers.

17 On June 9, 2008, Picacho filed its Comments to Staff Report.

18 On July 20, 2008, a Procedural Order was issued directing Staff to file a response to Picacho's
19 Comments to Staff Report.

20 On August 8, 2008, Staff filed its Responsive Staff Report.

21 On August 18, 2008, Picacho filed an Extension Request for additional time to file its reply to
22 Staff's Responsive Staff Report, and on August 20, 2008, a Procedural Order granting Picacho's
23 request was issued.

24 On August 19, 2008, a Procedural Order was issued directing Picacho to re-publish Public
25 Notice of the Financing and Rate Applications.

26 On August 28, 2008, Picacho filed its Certification of Mailing, stating that Picacho mailed
27 Public Notice of the Financing and Rate Applications to each of its customers on August 26, 2008.

28 On August 28, 2008, Picacho filed its Comments on Responsive Staff Report.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Pursuant to authority granted by the Commission, Picacho is an Arizona non-profit "C" corporation engaged in the business of providing water utility service near Picacho Peak, Pinal County, Arizona. Picacho serves five residential customers and nine commercial customers, including an RV Park with over 200 spaces.

2. On May 8, 2006, Picacho signed a Consent Order ("Consent Order") with the Arizona Department of Environmental Quality ("ADEQ"), in ADEQ Docket No. DW-45-06, in which Picacho agreed, among other things, to upgrade its water system to bring Picacho's water into compliance with ADEQ water quality standards.

3. On May 22, 2007, and December 13, 2007, Picacho filed the Financing Application requesting authorization to obtain a \$150,000, 20-year loan from the Water Infrastructure Finance Authority ("WIFA") to fund the necessary water system improvements.

4. On December 13, 2007, Picacho filed its Rate Application.

5. On December 13, 2007, Picacho mailed notice of the Rate Application to its customers.

6. By Procedural Order dated February 11, 2008, Docket Nos. W-02351A-07-0319 and W-02351A-07-0686 were consolidated.

7. On March 20, 2008, Staff issued a Letter of Sufficiency finding Picacho's Financing Application and Rate Application sufficient as of February 28, 2008, and classified Picacho as a Class D utility.

8. On May 21, 2008, Staff filed its Staff Report on the Rate and Financing Applications recommending, among other things, approval of Staff's proposed rates and charges and approval of the Financing Application.

9. On May 30, 2008, Picacho filed verification that it mailed Notice of the Application to its customers.

1 10. On June 9, 2008, Picacho filed its Comments to Staff Report, in which Picacho
2 opposed Staff's proposed rate structure because, "[w]hile the Staff Report spreads the [financing]
3 costs more evenly between the large and small users, [Picacho] believes it is entirely appropriate for
4 the large commercial cost drivers to shoulder more of the financial burden." (*Comments on Staff*
5 *Report, June 9, 2008*, page 2, lines 13-15). Picacho then proposed a revised rate structure.

6 11. On August 8, 2008, Staff filed its Responsive Staff Report, in which Staff considered
7 Picacho's request to redistribute the financial burden in the manner proposed by Picacho. Staff
8 submitted a revised rate structure but did not adopt Picacho's proposed rate structure.

9 12. On August 19, 2008, a Procedural Order was issued directing Picacho to re-publish
10 Public Notice of both the Financing Application and Rate Application because of the disparity
11 between the rates originally noticed by Picacho and the rates proposed by Staff in its Responsive
12 Staff Report.

13 13. On August 28, 2008, Picacho filed its Certification of Mailing, stating that Picacho
14 mailed Public Notice of the Financing and Rate Applications to each of its customers on August 26,
15 2008. No customer comments were received in response to the Public Notice.

16 14. On August 28, 2008, Picacho filed its Comments on Responsive Staff Report, in
17 which Picacho stated that, although Picacho supports its proposed rate structure, Picacho agrees that
18 Staff's proposed rate structure is reasonable. Picacho also objected to certain of Staff's
19 recommendations. (*See Findings of Fact Nos. 27-36, herein.*)

20 Rate Application

21 15. Picacho's present rates and charges for water were approved in Decision No. 53169
22 (August 11, 1982).

23 16. During the test year ended December 31, 2006, Picacho served five residential
24 customers on 3/4" meters, billing its residential customers at the 5/8" x 3/4" meter tariff rate during
25 the test year. Eight of the commercial customers are also served by 3/4" meters. One commercial
26 customer, the RV park, is connected by a 2" meter¹, supplying water to over 200 RV spaces.

27
28 ¹ According to the Staff Report, the 2" meter for the RV park is broken.

17. Average and median water usage by residential customers during the test year were 22,723 gallons and 7,750 gallons per month, respectively. Average and median water usage by commercial customers on a 3/4" meter were 38,062 gallons and 10,929 gallons per month, respectively. The average water usage by the commercial customer on the 2" meter was 165,825 gallons per month.

18. The water rates and charges for Picacho at present, as proposed by Picacho in its June 9, 2008, Comments to Staff Report, and as recommended by Staff in its Responsive Staff Report, are as follows:

| | <u>Present Rates</u> | <u>Company</u> | <u>Proposed Rates Staff</u> |
|--|--------------------------|----------------|---------------------------------|
| <u>MONTHLY USAGE CHARGE:</u> | | | |
| <u>Residential</u> | | | |
| 5/8" x 3/4" Meter | \$15.00 | - | \$15.00 |
| 3/4" Meter | - | \$20.00 | 15.00 |
| 1" Meter | - | - | 37.50 |
| 1 1/2" Meter | - | - | 75.00 |
| 2" Meter | - | - | 120.00 |
| 3" Meter | - | - | 240.00 |
| 4" Meter | - | - | 375.00 |
| 6" Meter | - | - | 750.00 |
| <u>Commercial</u> | | | |
| 5/8" x 3/4" Meter | \$85.00 | - | \$138.00 |
| 3/4" Meter | - | \$80.00 | 138.00 |
| 1" Meter | - | - | 345.00 |
| 1 1/2" Meter | - | - | 690.00 |
| 2" Meter | 85.00 | 500.00 | 1,425.00 |
| 3" Meter | - | - | 2,208.00 |
| 4" Meter | - | - | 3,450.00 |
| 6" Meter | - | - | 6,900.00 |
| <u>Commodity Rates</u> | | | |
| Gallons Included in Minimum | 3,000 | 0 | 0 |
| Excess of Minimum – per 1,000 gallons | \$3.40 | N/A | N/A |
| <u>Company</u> | | | |
| <u>3/4 - inch meter – Residential</u> | | | |
| Up to 5,000 Gallons | | \$2.50 | |
| 5,001 to 15,000 Gallons | | 3.50 | |

| | | | | |
|----|---|-----|--------|--------|
| 1 | Over 15,000 Gallons | | 4.90 | |
| 2 | <u>Staff ¾ - inch meter – Residential</u> | | | |
| 2 | Up to 3,000 Gallons | N/A | | \$3.05 |
| 3 | 3,001 to 10,000 Gallons | N/A | | 4.58 |
| 3 | Over 10,000 Gallons | N/A | | 5.49 |
| 4 | <u>Staff</u> | | | |
| 5 | <u>5/8 x ¾ - inch meter – Residential</u> | | | |
| 6 | Up to 3,000 Gallons | N/A | N/A | \$3.05 |
| 6 | 3,001 to 10,000 Gallons | N/A | N/A | 4.58 |
| 7 | Over 10,000 Gallons | N/A | N/A | 5.49 |
| 8 | <u>5/8 x ¾ - inch meter – Commercial</u> | | | |
| 8 | Up to 10,000 Gallons | N/A | \$7.25 | 4.58 |
| 9 | Over 10,000 Gallons | N/A | 8.69 | 5.49 |
| 10 | <u>One – inch meter – All</u> | | | |
| 11 | Up to 15,000 Gallons | N/A | 7.25 | 4.58 |
| 11 | Over 15,000 Gallons | N/A | 8.69 | 5.49 |
| 12 | <u>One and one half inch meter – All</u> | | | |
| 13 | Up to 20,000 Gallons | N/A | 7.25 | 4.58 |
| 13 | Over 20,000 Gallons | N/A | 8.69 | 5.49 |
| 14 | <u>Two – inch meter – All</u> | | | |
| 15 | Up to 25,000 Gallons | N/A | 7.25 | 4.58 |
| 16 | Over 25,000 Gallons | N/A | 8.69 | 5.49 |
| 17 | <u>Three – inch meter – All</u> | | | |
| 18 | Up to 70,000 Gallons | N/A | 7.25 | 4.58 |
| 18 | Over 70,000 Gallons | N/A | 8.69 | 5.49 |
| 19 | <u>Four - inch meter - All</u> | | | |
| 20 | Up to 250,000 Gallons | N/A | 7.25 | 4.58 |
| 20 | Over 250,000 Gallons | N/A | 8.69 | 5.49 |
| 21 | <u>Six – inch meter – All</u> | | | |
| 22 | Up to 800,000 Gallons | N/A | 7.25 | 4.58 |
| 23 | Over 800,000 Gallons | N/A | 8.69 | 5.49 |

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

| | <u>Present Rates</u> | <u>Company</u> | <u>Service Line Charge</u> | <u>Meter Installation</u> | <u>Total Recommendations</u> |
|----|----------------------|----------------|----------------------------|---------------------------|------------------------------|
| 27 | 5/8" x ¾" | N/A | \$ 520.00 | \$ 385.00 | \$ 135.00 |
| 28 | Meter | | | | \$ 520.00 |

| | | | | | | |
|----|--------------|-----|----------|----------|----------|----------|
| 1 | 3/4" Meter | N/A | 600.00 | 385.00 | 215.00 | 600.00 |
| | 1" Meter | N/A | 690.00 | 435.00 | 255.00 | 690.00 |
| 2 | 1 1/2" Meter | N/A | 935.00 | 470.00 | 465.00 | 935.00 |
| | 2" Meter – | N/A | 1,595.00 | 630.00 | 965.00 | 1,595.00 |
| 3 | Turbo | | | | | |
| | 2" Meter – | N/A | 2,320.00 | 630.00 | 1,690.00 | 2,320.00 |
| 4 | Compound | | | | | |
| | 3" Meter – | N/A | 2,275.00 | 805.00 | 1,470.00 | 2,275.00 |
| 5 | Turbo | | | | | |
| | 3: Meter – | N/A | 3,110.00 | 845.00 | 2,265.00 | 3,110.00 |
| 6 | Compound | | | | | |
| | 4" Meter – | N/A | 3,520.00 | 1,170.00 | 2,350.00 | 3,520.00 |
| 7 | Turbo | | | | | |
| | 4" Meter – | N/A | 4,475.00 | 1,230.00 | 3,245.00 | 4,475.00 |
| 8 | Compound | | | | | |
| | 6" Meter – | N/A | 6,257.00 | 1,730.00 | 4,545.00 | 6,275.00 |
| 9 | Turbo | | | | | |
| | 6" Meter – | N/A | 8,050.00 | 1,770.00 | 6,280.00 | 8,050.00 |
| 10 | Compound | | | | | |
| 11 | | | | | | |

SERVICE CHARGES:

| | | | | |
|----|---------------------------------------|-----|---------|---------|
| 14 | Establishment | N/A | \$25.00 | \$25.00 |
| | Establishment (After Hours) | N/A | 35.00 | 35.00 |
| 15 | Reconnection (Delinquent) | N/A | 25.00 | 25.00 |
| | Reconnection (Delinquent) after hours | N/A | 35.00 | 35.00 |
| 16 | Meter Test (If Correct) | N/A | 25.00 | 25.00 |
| | Deposit | N/A | * | * |
| 17 | Deposit Interest | N/A | * | * |
| | Reestablishment (Within 12 Months) | N/A | ** | ** |
| 18 | NSF Check | N/A | \$25.00 | \$25.00 |
| 19 | Deferred Payment (Per Month) | N/A | 1.50% | 1.50% |
| | Meter Reread (If Correct) | N/A | \$10.00 | \$10.00 |
| 20 | Late Fee | N/A | 1.00% | 1.00% |

* Per Commission rule (R14-2-403.B).

** Months off system times the monthly minimum (R14-2-403.D).

19. According to the Staff Report, Staff determined Picacho's original cost rate base ("OCRB") to be \$52,768, which is the same as its fair value rate base ("FVRB"). This is a \$49,322 increase to Picacho's proposed OCRB of \$3,446, due primarily to Staff's adjustments to accumulated depreciation, and CIAC and working capital adjustments.

20. Staff made several adjustments to Picacho's proposed test year net operating income,

1 resulting in a decrease of \$427, from a \$3,267 loss to a \$3,694 loss. The decrease to Picacho's test
2 year net operating income is due to a number of expense adjustments to outside services, water
3 testing, miscellaneous expense, depreciation expense, and property taxes.

4 21. Based on Staff's analysis, Picacho's present water rates and charges produced
5 operating revenues of \$31,828 and adjusted operating expenses of \$35,522, which resulted in net
6 operating income of negative \$3,694, for no return on FVRB during the test year.

7 22. The rates and charges proposed by Picacho would produce an operating revenue
8 \$66,124, and an adjusted operating expense of \$35,522, resulting in an operating income of \$30,602,
9 or a 57.99 percent return on the \$52,768 FVRB.

10 23. Staff recommends a \$34,572, or 108.6 percent, increase over test year revenue of
11 \$31,828. The water rates and charges Staff recommended would produce operating revenues of
12 \$66,400 and adjusted operating expenses of \$35,522, resulting in operating income of \$30,878, or an
13 58.52 percent rate of return on the \$52,768 FVRB.

14 24. Picacho's proposed rate schedules would increase the average monthly residential
15 customer on a 3/4-inch meter water bill by \$23.28, or 28.4 percent, from \$82.06 to \$105.34, and
16 increase the median monthly residential customer water bill by \$10.97, or 35.2 percent, from \$31.15
17 to \$42.12. Picacho's proposed rate schedules would increase the average monthly commercial
18 customer on a 3/4-inch meter water bill by \$141.25, or 69.2 percent, from \$204.21 to \$345.46, and
19 increase the median monthly commercial customer water bill by \$17.97, or 16.1 percent, from
20 \$111.96 to \$129.93. Picacho's proposed rate schedules would increase the average monthly bill for
21 the commercial customer on a two-inch meter by \$1,266.41, or 198.3 percent, from \$638.61 to
22 \$1,905.02.

23 25. Staff's proposed rate schedules would increase the average monthly residential
24 customer on a 3/4-inch meter water bill by \$44.00, or 53.6 percent, from \$82.06 to \$126.06, and
25 increase the median monthly residential customer water bill by \$14.76, or 47.4 percent, from \$31.15
26 to \$45.91. Staff's proposed rate schedules would increase the average monthly commercial customer
27 on a 3/4-inch meter water bill by \$133.65, or 65.4 percent, from \$204.21 to \$337.86, and increase the
28 median monthly commercial customer water bill by \$76.94, or 68.7 percent, from \$111.96 to

1 \$188.90. Staff's proposed rate schedules would increase the average monthly bill for the commercial
2 customer on a two-inch meter by \$1,674.02, or 262.1 percent, from \$638.61 to \$2,312.63.

3 26. In Picacho's August 28, 2008, Comments to Staff Report, Picacho stated that it prefers
4 its rate design, but concluded that Staff's recommended rates and charges are reasonable. Based on
5 the rationale set forth in the Responsive Staff Report for Staff's proposed adjustments and rate
6 design, we believe Staff's rate recommendations should be adopted.

7 27. Accordingly, we adopt the rates and charges as proposed by Staff.

8 28. In both its May 21, 2008, Staff Report and its Responsive Staff Report, Staff
9 recommended that Picacho shall file each January and July a report covering the previous six months
10 containing all activities regarding the ADEQ Consent Order. The written report would continue until
11 Staff receives notice that Picacho's water system is in total compliance with ADEQ regulations. In its
12 Responsive Staff Report, Staff added the recommendation that Picacho should be in full compliance
13 with ADEQ requirements by December 31, 2009. If Picacho is not in full compliance with ADEQ
14 requirements by December 31, 2009, Staff would be required to file an Order to Show Cause against
15 Picacho.

16 29. Picacho objected to these two Staff recommendations in its Comments to Responsive
17 Staff Report.² Picacho notes that, "[a]s a practical matter, total compliance is an extremely high
18 standard, and to the Company's knowledge, ADEQ has no administrative procedure to proclaim any
19 water provider is in total compliance." (*August 28, 2008, Comments to Responsive Staff Report*, page
20 2.) Further, Picacho is under a Consent Order to bring Picacho's water system into substantial
21 compliance as determined by ADEQ. Picacho asserts that requiring Staff to file an Order to Show
22 Cause if Picacho is not in "total compliance" with ADEQ regulations would be a duplicative, and
23 therefore unnecessary, exercise. (*August 28, 2008, Comments to Responsive Staff Report*, page 3.)

24 30. Given Picacho's past difficulties in maintaining its water system in compliance with
25 ADEQ regulations, Staff's concerns are appropriate and we adopt Staff's requirement. For the
26 purposes of this Decision, Picacho shall be deemed to be in "total compliance" when ADEQ has

27 _____
28 ² Although the first recommendation was included in the May 21, 2008, Staff Report, Picacho did not object to it until it
filed its comments to the Responsive Staff Report.

1 made a determination that Picacho's water system has no major deficiencies and is providing safe
2 water to its customers.

3 31. Therefore, we find that Picacho shall be required to file each January and July a report
4 covering the previous six months containing all activities regarding the ADEQ Consent Order. The
5 written report shall continue until Staff receives notice that Picacho's water system is in total
6 compliance with ADEQ regulations.

7 32. Further, we find Staff's recommendation to require that Picacho shall be in total
8 compliance, as defined in Findings of Fact No. 30, with ADEQ requirements by December 31, 2009,
9 reasonable. However, rather than requiring Staff to file an Order to Show Cause, we leave it to Staff's
10 discretion, after consultation with ADEQ, to make the determination as to whether an Order to Show
11 Cause is necessary.

12 33. Picacho also objects to Staff's recommendation requiring Picacho to obtain
13 information for its distribution mains and report such information in its Annual Report, due April,
14 2009. While Picacho agreed with Staff that having documentation showing its distribution system is
15 important, Picacho states that it does not have the records as they were lost in a fire. Picacho notes
16 that the estimated cost of mapping the distribution system would be between \$30,000 and \$60,000.
17 Although it is vital to have this information, Picacho does not have the funds to update its water
18 system as well as have the system mapped. Picacho believes that bringing the water system into
19 compliance with ADEQ water quality requirements is the more urgent matter.

20 34. Staff suggests that Picacho perform a data search for the original distribution system
21 as-built information by contacting its design engineers, contractors, and/or government agencies,
22 such as ADEQ, before spending \$30,000 to \$60,000 to recreate the data.

23 35. We encourage Picacho to undertake Staff's suggestion regarding efforts to re-create
24 mapping data for the distribution system. Should these efforts be unsuccessful, then it would be
25 necessary for Picacho to expend funds to perform the mapping. We agree with Picacho that it is vital
26 at this point that the funds should be used to bring its water system into compliance in order to
27 provide safe water to its customers. Nevertheless, we believe it is important for Picacho to provide
28 Staff with updates regarding its efforts to reconstruct the mapping information.

1 36. As such, we find that, within the filings made Picacho each January and July as
2 discussed in Findings of Fact No. 30, above, Picacho shall include a report regarding steps taken by
3 Picacho to re-create the mapping data for the distribution system.

4 37. In its Responsive Staff Report, Staff notes that, although Picacho is current on its sales
5 tax, it is not current on its property taxes. Picacho is negotiating a payment plan for its property taxes
6 with Pinal County.

7 38. Staff therefore recommends that the rates and charges should not become effective
8 until Picacho has either become current on its property tax obligations or has a final payment plan
9 negotiated with Pinal County and has filed verification with Docket Control of either full payment of
10 its property taxes or a copy of the negotiated payment plan ("Tax Verification"). We find this
11 recommendation to be reasonable.

12 39. Once the Tax Verification has been filed with Docket Control, the rates and charges
13 approved herein shall take effect beginning the first day of the second month after the Tax
14 Verification has been filed. Picacho shall provide its customers written notice of the new rates and
15 charges, in a form approved by Staff, 30 days prior to the institution of the new rates.

16 40. In addition to the above recommendations, Staff also made the following
17 recommendations regarding the Rate Application:

18 (a) Picacho shall file with Docket Control, as a compliance item in this docket, a
19 schedule of its approved rates and charges within 30 days of the effective date of this
Order.

20 (b) Picacho should collect from its customers a proportionate share of any
21 privilege, sales or use tax as provided for in Arizona Administrative Code ("A.A.C.")
R-14-2-409(D).

22 (c) Picacho shall maintain its records in accordance with the National Association
23 of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts
("USOA").

24 (d) Picacho shall install and maintain operable metering devices for its well and
25 for all customers and file with Docket Control, as a compliance item in this docket,
26 within 90 days of the effective date of this Order, an affidavit stating that the required
operable metering devices have been installed.

27 (e) The depreciation rates shown in Exhibit A, attached hereto, shall be adopted.
28

(f) Picacho shall file a subsequent rate case using a test year ending December 31, 2010, no later than June 1, 2011. If Picacho finds it necessary, it may file a rate case sooner with an earlier test year.

(g) Picacho shall file a curtailment tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/CurtailmentTariffSTANDARD.pdf. The tariff shall be docketed as a compliance item within 45 days of the effective date of this Order for review and certification by Staff.

41. According to the Staff Engineering Report, Picacho's current system can adequately serve its present customer base as well as any reasonable growth.

42. According to the Staff Report, Picacho is in compliance with Commission filing requirements.

43. Picacho is within the Tucson Active Management Area, and is in compliance Arizona Department of Water Resources monitoring and reporting requirements.

44. According to the Staff Report, Picacho is in good standing with the Corporations Division of the Commission.

45. Staff's review of the Commission's Consumer Services records showed that from 2005 through the present, there were zero complaints and three inquiries. All inquiries have been resolved and closed.

46. Because an allowance for the property tax expense is included in Picacho's rates and will be collected from its customers, the Commission seeks assurances from Picacho that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Picacho shall annually file, as part of its annual report, an affidavit with the Commission's Utilities Division attesting that the company is current in paying its property taxes in Arizona.

Financing Application

47. Picacho's Financing Application requests Commission approval to obtain a \$150,000 loan from WIFA for a term of 20 years and at a 5.0 percent annual interest rate. The funds from the

1 loan will be used to retain an engineer to develop a more specific work plan to determine the exact
2 treatment plant size, location, and capacity for each customer and to install the recommended reverse
3 osmosis systems at specific points where drinking water is most likely to be dispensed. Staff
4 examined the Financing Application and determined that the loan amount is a good estimate, but
5 notes that Picacho does not have a detailed work plan. Staff made no "used and useful" determination
6 of the proposed plant and no particular future treatment should be inferred for rate-making or rate
7 base purposes.

8 48. Staff analyzed Picacho's adjusted test year financial statements dated December 31,
9 2006, as adjusted by Staff. At that time, Picacho's capital structure consisted 2.3 percent short-term
10 debt, 56.9 percent long-term debt, and 40.7 percent equity. A draw of the entire proposed WIFA loan
11 would result in a pro-forma capital structure comprised of 2.7 percent short-term debt, 82.8 percent
12 long-term debt, and 14.6 percent equity.

13 49. Staff examined the effects of the proposed financing on Picacho's debt service
14 coverage ("DSC") and times interest earned ratios ("TIER").³ Using Staff's recommended revenue
15 requirement and fully drawing the proposed \$150,000 loan results in pro forma DSC and TIER of
16 1.25 and 1.76, respectively. These ratios show that Picacho would have adequate cash flow to meet
17 all obligations, including the proposed debt.

18 50. Staff concludes that the proposed WIFA loan is an appropriate financial instrument to
19 finance the proposed plans. Staff further concludes that issuance of a long-term amortizing loan of
20 approximately 20 years for the \$150,000 estimated cost of the capital improvements is appropriate, is
21 within its corporate powers, is compatible with the public interest, would not impair its ability to
22 provide services and would be consistent with sound financial practices.

23 51. Staff recommends Commission authorization for Picacho to obtain an 18-to-22 year
24 amortizing loan at a rate not to exceed the prime rate plus two percent for an amount not to exceed
25 \$150,000 to finance remediation improvements.

26 ³ DSC represents the number of times internally generated cash cover required principal and interest payments on debt. A
27 DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations. TIER represents the number of
28 times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating
income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily
mean that debt obligations cannot be met in the short term.

52. Staff further recommends authorizing Picacho to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

53. Staff further recommends that Picacho file with Docket Control copies of the executed loan documents, as a compliance item in this docket, within 60 days of the transaction's closing.

54. Staff's recommendations in Findings of Fact Nos. 30, 31, 36, 38-40, and 50-52 are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Picacho is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over Picacho and of the subject matter of the Financing Application and Rate Application.

3. Notice of the Financing Application and Rate Application was given in accordance with the law.

4. The rates and charges authorized herein are just and reasonable and should be approved without a hearing.

5. The financing approved herein is for lawful purposes within Picacho's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Picacho of service as a public service corporation, and will not impair its ability to perform the service.

6. The financing approved herein is for the purposes stated in the Financing Application, is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

7. Staff's recommendations as modified, and as set forth in Findings of Fact Nos. 30, 31, 36, 38-40, and 50-52 are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Picacho Peak Water Company, Inc., is hereby directed to file with Docket Control, as a compliance item in this docket within 30 days of the effective date of this Order, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:Residential

| | |
|-------------------|---------|
| 5/8" x 3/4" Meter | \$15.00 |
| 3/4" Meter | 15.00 |
| 1" Meter | 37.50 |
| 1 1/2" Meter | 75.00 |
| 2" Meter | 120.00 |
| 3" Meter | 240.00 |
| 4" Meter | 375.00 |
| 6" Meter | 750.00 |

Commercial

| | |
|-------------------|----------|
| 5/8" x 3/4" Meter | \$138.00 |
| 3/4" Meter | 138.00 |
| 1" Meter | 345.00 |
| 1 1/2" Meter | 690.00 |
| 2" Meter | 1,425.00 |
| 3" Meter | 2,208.00 |
| 4" Meter | 3,450.00 |
| 6" Meter | 6,900.00 |

Commodity Rates

| | |
|---------------------------------------|--------|
| Gallons Included in Minimum | 3,000 |
| Excess of Minimum – per 1,000 gallons | \$0.00 |

Company3/4 - inch meter – Residential

| |
|-------------------------|
| Up to 5,000 Gallons |
| 5,001 to 15,000 Gallons |
| Over 15,000 Gallons |

Staff 3/4 - inch meter – Residential

| | |
|-------------------------|--------|
| Up to 3,000 Gallons | \$3.05 |
| 3,001 to 10,000 Gallons | 4.58 |
| Over 10,000 Gallons | 5.49 |

Staff5/8 x 3/4 - inch meter – Residential

| | |
|-------------------------|--------|
| Up to 3,000 Gallons | \$3.05 |
| 3,001 to 10,000 Gallons | 4.58 |
| Over 10,000 Gallons | 5.49 |

5/8 x 3/4 - inch meter – Commercial

| | |
|----------------------|------|
| Up to 10,000 Gallons | 4.58 |
| Over 10,000 Gallons | 5.49 |

One – inch meter – All

| | | |
|----|--|------|
| 1 | Up to 15,000 Gallons | 4.58 |
| 2 | Over 15,000 Gallons | 5.49 |
| 3 | <u>One and one half inch meter – All</u> | |
| 4 | Up to 20,000 Gallons | 4.58 |
| 5 | Over 20,000 Gallons | 5.49 |
| 6 | <u>Two – inch meter – All</u> | |
| 7 | Up to 25,000 Gallons | 4.58 |
| 8 | Over 25,000 Gallons | 5.49 |
| 9 | <u>Three – inch meter – All</u> | |
| 10 | Up to 70,000 Gallons | 4.58 |
| 11 | Over 70,000 Gallons | 5.49 |
| 12 | <u>Four - inch meter - All</u> | |
| 13 | Up to 250,000 Gallons | 4.58 |
| 14 | Over 250,000 Gallons | 5.49 |
| 15 | <u>Six – inch meter – All</u> | |
| 16 | Up to 800,000 Gallons | 4.58 |
| 17 | Over 800,000 Gallons | 5.49 |

| | <u>Service Line</u> | <u>Meter</u> | <u>Total</u> |
|----|---------------------|---------------------|--------------|
| | <u>Charge</u> | <u>Installation</u> | |
| 15 | 5/8" x 3/4" | \$ 385.00 | \$ 135.00 |
| 16 | Meter | | \$ 520.00 |
| 17 | 3/4" Meter | 385.00 | 215.00 |
| 18 | 1" Meter | 435.00 | 255.00 |
| 19 | 1 1/2" Meter | 470.00 | 465.00 |
| 20 | 2" Meter – | 630.00 | 935.00 |
| 21 | Turbo | | 1,595.00 |
| 22 | 2" Meter – | 630.00 | 1,690.00 |
| 23 | Compound | | 2,320.00 |
| 24 | 3" Meter – | 805.00 | 1,470.00 |
| 25 | Turbo | | 2,275.00 |
| 26 | 3: Meter – | 845.00 | 2,265.00 |
| 27 | Compound | | 3,110.00 |
| 28 | 4" Meter – | 1,170.00 | 2,350.00 |
| | Turbo | | 3,520.00 |
| | 4" Meter – | 1,230.00 | 3,245.00 |
| | Compound | | 4,475.00 |
| | 6" Meter – | 1,730.00 | 4,545.00 |
| | Turbo | | 6,275.00 |
| | 6" Meter – | 1,770.00 | 6,280.00 |
| | Compound | | 8,050.00 |

SERVICE CHARGES:

| | |
|---------------------------------------|---------|
| Establishment | \$25.00 |
| Establishment (After Hours) | 35.00 |
| Reconnection (Delinquent) | 25.00 |
| Reconnection (Delinquent) after hours | 35.00 |
| Meter Test (If Correct) | 25.00 |
| Deposit | * |
| Deposit Interest | * |
| Reestablishment (Within 12 Months) | ** |
| NSF Check | \$25.00 |
| Deferred Payment (Per Month) | 1.50% |
| Meter Reread (If Correct) | \$10.00 |
| Late Fee | 1.00% |

* Per Commission rule (R14-2-403.B).

** Months off system times the monthly minimum (R14-2-403.D).

IT IS FURTHER ORDERED that the approved rates and charges shall not become effective until Picacho Peak Water Company, Inc., either has become current on its property taxes, or has a final payment plan negotiated with Pinal County and has filed verification of either full payment of its property taxes or a copy of the tax verification with Docket Control.

IT IS FURTHER ORDERED that once Picacho Peak Water Company, Inc., has filed its Tax Verification with Docket Control, the rates and charges approved herein shall take effect beginning the first day of the second month after the tax verification has been filed. Picacho Peak Water Company, Inc., shall provide to its customers written notice of the new rates and charges, in a form approved by the Commission Staff, 30 days prior to institution of the authorized rates and charges.

IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges, Picacho Water Company, Inc., shall collect from its customers a proportionate share of any privilege, sales or use tax per A.C.C. R14-2-409(D).

IT IS FURTHER ORDERED that Picacho Peak Water Company, Inc., shall file as part of its Annual Report affidavits attesting that it is current on payment of its property taxes in Arizona.

IT IS FURTHER ORDERED that Picacho Peak Water Company, Inc., shall maintain its records in accordance with the National Association of Regulatory Utility Commissions Uniform System of Accounts.

1 IT IS FURTHER ORDERED that the depreciation rates shown in the attached Exhibit 'A' are
2 hereby authorized.

3 IT IS FURTHER ORDERED that Picacho Peak Water Company, Inc., shall file each January
4 and July, a report covering the previous six months that contains all activities regarding the Arizona
5 Department of Environmental Quality Consent Order, as well as a report regarding steps taken to re-
6 create the mapping data for the distribution system. Picacho Peak Water Company, Inc., shall
7 continue to file the bi-annual report until such time as its water system is found by Arizona
8 Department of Environmental Quality to be in total compliance, as defined herein, with its
9 regulations.

10 IT IS FURTHER ORDERED that Picacho Peak Water Company, Inc., shall be in total
11 compliance with Arizona Department of Environmental Quality by December 31, 2009, and if not,
12 Staff may file an Order to Show Cause.

13 IT IS FURTHER ORDERED that Picacho Peak Water Company, Inc., shall file a subsequent
14 rate case using a test year ending December 31, 2010, no later than June 1, 2011.

15 IT IS FURTHER ORDERED that Picacho Peak Water Company, Inc., shall file a curtailment
16 tariff in the form found on the Commission's website. The tariff shall be docketed as a compliance
17 item in this docket within 45 days of the effective date of this Order for review and certification by
18 Commission Staff.

19 IT IS FURTHER ORDERED that Picacho Peak Water Company, Inc., shall install and
20 maintain operable metering devices for its well and for all customers, and file with Docket Control,
21 as a compliance item in this docket, within 90 days after the effective date of this Order, an affidavit
22 stating that the required operable metering devices have been installed.

23 IT IS FURTHER ORDERED that Picacho Water Company, Inc., is hereby authorized to
24 borrow up to \$150,000 from the Arizona Water Infrastructure Finance Authority for a term of up to
25 22 years amortizing loan at a rate not to exceed the prime rate plus two percent for an amount not to
26 exceed \$150,000.

27 IT IS FURTHER ORDERED that such financing authority shall be expressly contingent upon
28 Picacho Water Company, Inc.,'s use of the proceeds for the purposes stated in the application and

1 approved herein.

2 IT IS FURTHER ORDERED that Picacho Water Company, Inc., is authorized to engage in
3 any transactions and to execute any documents necessary to effectuate the authorization granted
4 herein.

5 IT IS FURTHER ORDERED that Picacho Water Company, Inc., shall file with Docket
6 Control, as a compliance item in this docket, copies of its executed financing documents within 60
7 days after the transaction is closed.

8 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
9 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
10 proceeds derived thereby for purposes of establishing just and reasonable rates.

11 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
13
14

15 CHAIRMAN _____ COMMISSIONER

16
17 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

18 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
19 Director of the Arizona Corporation Commission, have
20 hereunto set my hand and caused the official seal of the
21 Commission to be affixed at the Capitol, in the City of Phoenix,
22 this _____ day of _____, 2008.

23 _____
24 BRIAN C. McNEIL
EXECUTIVE DIRECTOR

25
26 DISSENT _____

27
28 DISSENT _____

1 SERVICE LIST FOR: PICACHO PEAK WATER COMPANY
2 DOCKET NOS.: W-02351A-07-0319 and W-02351A-07-0686

3
4 Bill McCabe, President
5 PICACHO PEAK WATER COMPANY, INC.
6 150 Louisiana, NE
7 Albuquerque, New Mexico 87108

8
9 Steve Wene, Esq.
10 MOYES STOREY, LTD
11 1850 North Central Avenue, Suite 1100
12 Phoenix, Arizona 85004

13
14 Janice Alward, Chief Counsel
15 Legal Division
16 ARIZONA CORPORATION COMMISSION
17 1200 W. Washington Street
18 Phoenix, Arizona 85007

19
20 Ernest Johnson, Director
21 Utilities Division
22 ARIZONA CORPORATION COMMISSION
23 1200 W. Washington Street
24 Phoenix, Arizona 85007

25

26

27

28

29

30

31

32

33

34

35

36

37

38